

**Report to the
Salton Sea Authority
Economic Development Task Force**

*The Rose Institute of State and Local Government
Claremont McKenna College*

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Section I:
Introduction

I. Introduction

This report has been prepared for The Economic Development Task Force, an advisory body appointed by the Salton Sea Authority. The Economic Development Task Force engaged the Rose Institute of State and Local Government to prepare a report that would contain two main elements. The first element: a list of the potential revenue sources that could be used to help finance a proposed clean-up of the Salton Sea. The second element: a listing of the government entities involved in similar large, complex, ecologically challenging, water related projects. Additionally, some analysis of overall governance entity structure is provided.

The list of potential revenue sources is provided in section II.

Section III contains graphic and tabular data based on the economic projections developed by Professor Michael J. Bazdarich, Director of the Inland Empire Databank and Forecasting Center, Anderson Graduate School of Management, University of California, Riverside. Included in this section are brief discussions about the various attributes, pro and con, of each of the revenue streams reviewed.

The list of potential governmental structures that might be created to oversee the clean-up of the Salton Sea is provided in Section IV. In addition, this section contains some general observations about the attributes that any such governmental structure might possess.

Section V examines the potential consequences of allowing further deterioration of the Salton Sea.

Section VI estimates the total economic benefit of restoration of the Salton Sea.

The contents of this report reflect the input of the Economic Development Task Force at several meetings in November and December of 1998. The Rose Institute staff wishes to acknowledge the valuable insights provided by the Task Force and interested citizens who attended these meetings. This report benefited tremendously from their contributions.

Executive Summary

- I. There is a large number of potential revenue sources that might be used. Many have substantial limitations, however.
- II. The value of some of the potential revenue sources varies substantially, however.
 - A. The revenue streams generated from the most probable sources could have a net present value as high as \$361 million.
 - 1. Parking/entrance fees
 - 2. Salton Sea license plates
 - 3. Boat permits & launch fees
 - 4. Salton Sea fishing stamps
 - B. The revenue streams that possible revenue sources might generate could have a net present value as high as \$83 million.
 - 1. 0.5% sales tax increase in Salton Sea Focus Area
 - 2. Transient Occupancy Tax in the Salton Sea Focus Area
 - C. The revenue streams that problematic sources might generate could be substantial, but cannot be estimated with any precision at this time.
 - 1. Geothermal energy production
 - 2. Casino
 - 3. Water transfers, conservation & recycling
 - 4. Redevelopment
 - 5. Diversion of increased property tax revenues
- III. Any potential government structure will probably have to incorporate a substantial number of federal, tribal, state and local entities.
- IV. Consequences of allowing further deterioration of the Salton Sea are substantial.
 - A. Decreased property values of \$731 million to \$1.29 billion.
 - B. Decreased economic activity of \$161 million to \$238 million.
 - C. Environmental degradation, loss of habitat and bio-diversity, and decreases in the quality of life. Potential cost unknown at this time.
- V. Overall economic benefits of Salton Sea restoration are substantial.
 - A. \$4.38 billion to \$5.8 billion

Section II: Potential Revenue Sources

II. Potential Revenue Sources

SALES AND USE TAXES

Advantages: The revenue base is broad and relatively stable, and thus a small percentage of the general sales tax can bring in significant revenues.

Limitations: Sales taxes are tend to be regressive, and thus equity is not attained. The cost/benefit relationship is not immediately obvious unless taxes on specific goods can be related and dedicated to related environmental programs, but this may prove administratively burdensome and too complex. States and localities may have statutory limitations on general sales tax increases and earmarking. Environmental dedication may be difficult to sustain.

FERTILIZER/PESTICIDE TAXES

Advantages: The tax could generate significant revenues because of the relatively large volume of fertilizers and pesticides used. States could employ graduated rate structures which vary according to the toxicity of the ingredients in each item, thus improving upon equity considerations. Such taxes are relatively easy to collect if imposed on producers directly, and may also discourage excessive use of harmful products (although this would result in declining revenues). Taxes could include residential garden use.

Limitations: Although there is a direct cost/benefit relationship between agricultural chemical use and pollution, it would be difficult to apply all revenue receipts to non-point source projects because such projects are generally lower cost compared to point source projects. The tax is highly regressive and inequitable in terms of the cost to small farmers versus large agricultural businesses, and impacts vegetable and fruit producers especially hard. These taxes would be strongly opposed by the agricultural lobby because of the importance of fertilizers/pesticides to reliable crop production. Pollution "havens" between States might be created if the taxes were not uniform across States. As a sales tax, fertilizer/pesticides taxes might be as efficiently and equitably administered at the Federal as opposed to State level, although then would fall most heavily on crop producing States.

GREEN PRODUCT TAXES

Advantages: These taxes could generate significant revenues, if a wide array of products were included in the tax base and rates were at several percentage points (e.g. 3% or more) of sales price. When collected directly from producers/manufacturers as opposed to over-the-counter, they are relatively easy to collect. Green product taxes might heighten awareness of the potential negative environmental impacts of such products, and lead to behavioral shifts such as conservation and the development of new, "safe" products (although this would result in a decline in revenue).

Limitations: These taxes are highly regressive, impacting both small producers and consumers adversely. It will be difficult to define and limit the tax base, as the list of harmful products is so large, and empirical data on adverse environmental impacts are very small. The lack of quantitative toxicity data means that it would be difficult to employ a more equitable, graduated rate system for different products. Administrative complexities also pertain to the stability and predictability of the revenue stream, as new products and producers will appear or disappear over time, and be imported. These taxes

create pollution havens if the tax base and rates are not uniform across States, which would be very difficult to achieve. Industry and consumer resistance may be high. For many products, green taxes may be best administered as a federal and not State tax program.

HOTEL TAXES

Advantages: Occupancy taxes spread the costs of maintaining State and local natural areas and government services to those who benefit from them. Because non-local and out-of-state residents must pay such taxes, they are equitable and maintain a good cost/benefit relationship.

Limitations: Since the demand for hotel space is relatively elastic, a price increase could reduce occupancy rates, and ultimately tax revenues, particularly if a city or county unilaterally imposes an occupancy tax higher than in surrounding areas. If no occupancy tax currently exists, collecting occupancy information for hotels, motels, and rental units each month could involve high administrative costs. Revenue yield might be low, unpredictable, and lack stability.

MARINE AND AVIATION TAXES

Advantages: Implementing marine fuel taxes assures equity among all gasoline and diesel fuel users, although current marine fuel rates generally are lower than highway gasoline taxes. Having boat and barge users pay some of the costs of pollution control associated with their activities creates a solid cost/benefit relationship, as well as heightening awareness of potential water quality problems. Aviation-related taxes can be a particularly good source of local revenue and, similar to rental car taxes, help ensure equity by including out-of-state travelers.

Limitations: If a State does not already tax marine and aviation fuel, it could be costly to set up a collection and accounting system. The same is true for local mooring and port taxes. The revenue stream probably will fluctuate depending on a number of factors, including weather and travel conditions, and the current cost of air travel.

REAL ESTATE TRANSFER TAXES

Advantages: Since real property values are high, a real estate transfer tax based on value generates a large amount of revenue at relatively low rates. Most governments already have a system in place for recording real estate sales which could ease collection. Tax rates would be graduated so that tax is reasonably equitable as is the cost/benefit relationship.

Limitations: The revenues are dependent on the level of activity in the real estate market, which is subject to wide and frequent fluctuation depending on economic conditions, weather, and other factors. Thus, tax revenues may not be reliable. The application of the tax may have inequitable distribution effects, and may cause an increase in housing costs in some areas.

RENTAL CAR TAXES

Advantages: Rental car taxes could spread the costs of maintaining air and water quality to those who benefit from it, including out-of-county and out-of-state visitors, which enhance equity considerations. These taxes might also serve as an incentive for visitors to

use public transportation, reducing mobile source emissions but producing a corresponding drop in revenues.

Limitations: At the local level, imposing a new tax or increasing an existing tax could cause a city or county to lose rental car business to other, lower-tax counties. Similarly, State business could be affected negatively. Revenue yield may be small and unpredictable.

BOND ISSUANCE FEES

Advantages: Such fees could provide a significant revenue stream when bond issuing amounts are high. If graduated fee schedules are established, fees are equitable and provide a good cost/benefit ratio depending on rededication.

Limitations: The revenue stream is unpredictable since it depends on the local demand for financing, which is influenced by environmental compliance issues, local debt capacity, and readiness to proceed with construction. State private-activity revenue bond issuance fees may result in a lack of State competitiveness with local industrial development authorities, which already may have lower bond issuance costs. Fees add to the carrying costs of local agencies undertaking infrastructure work, and thus may seem counter-productive. The administrative costs of collecting fees on very small bonds may be prohibitive.

LICENSING AND RECREATIONAL FEES

Advantages: These fees can cover expenses for public use of environmentally sensitive areas, and still represent an untapped revenue source in many States.

Charging fees would allow State general revenues to be used for other purposes. Most license fees have built in enforcement mechanism, since the licensing government can revoke the privilege granted with the license if fees are not paid, and provide a direct cost/benefit relationship. Equity is enhanced because out-of-state tourists must pay for the environmental impacts of increased tourism in an area.

Limitations: It may be difficult to institute recreational fees if use of State waters and parks has historically been free. Such fees may have a disproportionate impact on lower-income segments of the population who may have few other low cost recreational opportunities. Since they generally apply only to a limited population, most license fees have a small revenue base, and it may be difficult to raise significant revenues if fees are set at low levels.

LOCAL WATER/WASTEWATER UTILITY USER FEES

Advantages: Utility user fees provide services that most residents require. Thus, the fee base is large enough to provide a strong and reliable revenue stream at relatively low, equitable rates. Graduated rate structures would improve equity. Small rate increases can raise significant revenues while imposing a fairly small increased burden on households. The cost/benefit relationship is clear and rational rate-setting increases public awareness of the true cost and environmental benefits of water-related services.

Limitations: Many localities are accustomed to subsidized rates. This makes rate increases difficult. In small or economically disadvantaged communities, reliance on user fees for operations and maintenance as well as capital financing may be unaffordable, based on fiscal indicators such as median household income and community debt

capacity. Smaller communities may not have the management and other tools to reevaluate their rate structures with many complex policy choice issues.

PERMITTING FEES

Advantages: Permit fees may cover some or all of the start-up costs associated with the permit application process. Graduated fee rates based on toxicity, such as used for effluent-based permits in Louisiana, New Jersey and Louisiana, and hazardous waste permit fees in New York, could generate a significant revenue stream dedicated to State capital-generation for environmental infrastructure.

Graduated rates may encourage pollution reduction, and wetland permits encourage wetland conservation and provide State governments with advance information about wetland building plans. Fee collection is relatively straightforward.

Limitations: Revenue yield in most States is modest, and somewhat unpredictable. Flat rates may be inequitable, particularly for minor facilities which constitute the majority of permittees, and facility owners may not see a close cost/benefit relationship. Tracking ownership and development of wetlands and underground storage tanks can be administratively complex and expensive.

PRODUCT REGISTRATION FEES

Advantages: If set high enough, and proportional to anticipated product production, such fees may increase awareness of harmful products on the part of consumers and influence conservation of use or product substitution. Fee revenues dedicated to research and data collection on new, environmentally-degrading products would result in a good cost/benefit relationship. Fees also may enable the placement of limits or regulations on the sale of such products, and at least provide advance notice of new products coming on the market.

Limitations: Product registration fees will face opposition from the producers, who may already have gone through complicated and expensive federal approval processes, such as the Food and Drug Administration certification.

STATE PUBLIC WATER SUPPLY WITHDRAWAL FEES

Advantages: This type of broad-based, low level fee could yield high revenue. The regressiveness of flat fees could be avoided by using graduated fee rate structures or percentages. The cost/benefit relationship is strong, and State fees may increase awareness of the true cost of water services. The demand for public water, particularly by industry, is relatively inelastic, resulting in a stable and predictable revenue stream.

Limitations: The revenue base of the public water supply withdrawal fee is severely limited, however, because water supplied by utilities resents only a very slim portion (about 12%) of all water use in this country. The majority of water use results from direct withdrawals from ground and surface water sources by industry, mining, hydroelectricity and agriculture, and private wells. Legislation would be required, and local utilities may resist rebating fees to the State level. New fees would be unpopular with water utilities, both public and private, which oppose incremental increases in user fees because of lack of community support particularly when fees are redistributed to other localities. New State administrative procedures would be required to collect fees from utilities.

SPECIAL ASSESSMENTS

Advantages: The advantages of this kind of financing accrue to the potential revenue yield, which could be stable, and to increased equity and an improved cost/benefit relationship. Extending revenue requirements to suburban residents, who may have lower infrastructure costs and more ability to pay, relieve some of the burden on inner city residents. Asking inner city residents to pay for developments in the suburbs, may prove inequitable. Incentives in terms of recognition of the true costs of environmental services is important.

Limitations: These financing methods require the ability of the passing of local ordinances and the creation of special financing districts, which may have to be approved by State government, which is often difficult. They require administrative systems that may be costly to manage over time. It is not possible to achieve total equity, as there may be no ability to collect, for example, from downstream users benefiting from upstream water quality improvement. Assessments based on predictions of property value increases, and documentation of results, requires strict record-keeping and periodic reassessments which may require special management tools not available to communities.

EFFLUENT CHARGES

Advantages: Effluent fees could generate significant and reliable revenue on an annual basis. The cost/benefit ratio is satisfactory since the "polluter pays" principle exists. Fees could provide strong environmental incentives to reduce the discharge of harmful pollutants. If tied to NPDES permit issuance and renewal, fees could be collected by permit writers.

Limitations: Effluent fees remain some of the most challenging to design and administer because of data limitations and policy concerns. Although self-reported Toxic Release Inventory (TRI) data are used to estimate volume and toxicity, the TRI covers major industrial toxic discharges only and no standardized toxicity measures (or "weights") exist. Thus it is difficult to institute graduated rate structures which characterize true effluent fee systems, and even more complex to relate discharges to receiving water quality, because waste streams vary in dilution and receiving water quality varies considerably. The inability to relate fees to specific environmental damage reduces the equity of fees and also the directness of the cost/benefit ratio.

Flat-rate fees are more simple and less easily circumvented through dilution or media transfers. However, even this approach appears to impact heavily, and disproportionately, on the chemical and allied product industry and, secondarily, on the pulp and paper industry. Effluent fees are highly unpopular with industry and municipalities.

EXACTIONS

Advantages: Developers pay the true cost of community expansion out of their direct benefit from that expansion. Thus, some equity and cost/benefit relationship is achieved, but the way some exactions are privately negotiated may leave equity issues in doubt. When exactions take the form of construction materials or facilities, having the developer do the construction may be cheaper and faster than having it done by the governmental jurisdiction. Since they can be individually negotiated, exactions allow more flexibility than fixed impact fees discussed later. The revenue collected by monetary contributions, or represented by cost-savings on facilities built, could be significant.

Limitations: Since they are individually negotiated, exactions are not always considered as predictable or equitable a system as impact fees. Fairness may be further decreased as politics may enter into private negotiations. The revenue source is only as predictable as the economic conditions affecting the construction industry. Additionally, it is problematic if these fees are not just transferred to the end purchaser.

IMPACT FEES

Advantages: The beneficiaries of services pay specifically for the extension of local government facilities to them, rather than being subsidized by current users. This results in enhanced equity and a close cost/benefit relationship.

Impact fees cover non-subdivision projects such as condominiums and commercial developments. From a developers perspective, impact fees may replace more unpredictable, negotiated exactions. Impact fees may help local governments to plan for growth.

Limitations: Impact fees do not provide capital much in advance of development, unless impact "rights" are sold up-front. It may be difficult for localities to ascertain the capital needs and thus size the fees. Impact fees are criticized for deterring development and increasing new housing costs, and resulting in interjurisdictional competition. Also, communities may change their policy preferences depending on economic conditions, for example, finding a need to subsidize new development rather than the reverse. Developers may well pass on impact fees to residents.

SEVERANCE TAXES

Advantages: Severance taxes can yield significant revenues, which could be sufficient to dedicate to environmental infrastructure capital-generation. Charges are highly equitable especially when based on the current market value, not volume, of material mined or harvested. When dedicated promptly to activities that will mitigate impacts, particularly near the same site, these taxes have a high cost/benefit ratio. For sensitive activities such as timber cutting, and wetland alteration, the State will be given advance notice of impending activity.

Limitations: By definition, severance tax revenues depend on the level of extraction activity, or price of the material extracted. If the tax base or commodity price fluctuates, (e.g., shellfish harvest varies widely from year to year as do oil and gas prices), revenues may not be suitable for funding environmental program costs that require stability. Lobbies in some States have defeated passage of severance taxes, and resisted dedication.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG) ECONOMIC INITIATIVE GRANTS

Advantages: Equity and leveraging opportunities are high and built into the program. Some very specific environmental projects have been completed in low-income areas.

Limitations: EDI grant funds are constrained in that they may only be used in conjunction with projects and activities assisted under the Section 108 loan Program. Principal beneficiaries of the grants must be low and moderate income persons. Many non-environmental projects are funded and payment is on a cost-incurred basis.

ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) PUBLIC WORKS & INFRASTRUCTURE DEVELOPMENT GRANTS

Advantages: The program has had a significant environmental focus. Grants have on occasion been combined with State revolving fund loans and rural utility grants/loans for water and wastewater. Aid to the private non-profit sector enhances leveraging opportunities.

Limitations: Grants are limited to communities experiencing severe economic distress. Also, communities must generally provide matching funds of up to 50 percent. Further, grant funds are disbursed for costs incurred only after all construction contracts have been awarded. EDA grants have historically been somewhat unstable.

EDA SPECIAL ECONOMIC DEVELOPMENT & ADJUSTMENT ASSISTANCE GRANTS

Advantages: The potential to use grant monies for environmental improvements in disaster areas is high, as improved environmental services are crucial. Equity and leveraging potential are also strong.

Limitations: Grants are limited to areas experiencing sudden economic distress or long-term economic decline. Communities participating in the program must provide matching funds equal to 25 percent of the grant received. The program supports many non-environmental projects, and funding had varied considerably over the years.

ENVIRONMENTAL PROTECTION AGENCY (EPA) PROGRAM GRANTS

Advantages: Federal grants provide State and local governments with the means of meeting national environmental quality goals. They may also provide funds otherwise unavailable to State or local programs, thus enhancing equity, environmental incentives, and financial leveraging considerations.

Limitations: Funds may be targeted to specific statutory goals. Programs must compete for limited funds and sign EPA grant agreements to perform activities. Each grant is very specific, thus limiting State and local flexibility.

EPA – PERFORMANCE PARTNERSHIP GRANTS (PPGs)

Advantages: PPGs give States and Tribes more flexibility to address their highest environmental priorities, thus increasing equity and environmental incentives. They provide incentives to States and Tribes to improve environmental performance and links between program goals and outcomes. PPGs also cut administrative burdens/costs for recipients and EPA by reducing the numbers of grant applications, budgets, work plans and reports. EPA will build partnerships with States and Tribes via shared goals and division of responsibilities.

Limitations: No extra funds are available via use of PPGs. States and Tribes must first develop environmental indicators and performance measures to ensure progress is made to agreed on goals.

ENVIRONMENTAL TECHNOLOGY INITIATIVE

Advantages: Use of the innovative environmental technologies being developed and promoted by ETI partnerships and projects can cut regulatory compliance costs, reduce public health risks, gain superior environmental results, make companies more efficient and competitive, and improve community environmental services.

Private sector equity, environmental incentives, and leveraging possibilities are all high. **Limitations:** Before innovative environmental technologies can achieve regulatory acceptance, technology developers must decipher and meet a disjointed system of verification requirements in each State where a potential market exists. Once regulatory acceptance is achieved, the innovative technologies must then prove themselves and gain acceptance for actual field use.

FOUNDATION AND CORPORATE GIVING

Advantages: These grants are not directly dependent on tax dollars and grant conditions may be less burdensome. Innovation is encouraged and equity provided since grantees are not supported by governments. Grantees are forced to leverage other resources or become self-sustaining.

Limitations: Funding levels may be highly variable, competition for resources is very intense and awards are usually directed to innovative projects. Environmental impacts may be limited if projects are too small and esoteric. Since funding is typically for very short, defined periods of time, it is a real challenge for grantees to succeed or become independent.

RURAL BUSINESS – COOPERATIVE SERVICE BUSINESS ENTERPRISE GRANTS

Advantages: Both public and private entities may be supported. The projects supported may have specific and significant environmental impacts.

Limitations: Priority for the grants is given to rural areas having a population of 25,000 or less. Other priorities include projects located in communities with a large proportion of low-income population; projects located in areas with high unemployment, projects that will retain existing jobs, and projects that will create new jobs. Many projects may not have an environmental focus.

RURAL BUSINESS – COOPERATIVE SERVICE ECONOMIC DEVELOPMENT GRANTS

Advantages: The grants are inherently equitable since they fund projects that would not otherwise be funded for an often needy segment of society. When revolving loan funds are created, leveraging is very high.

Limitations: The maximum grant amount is \$400,000. The maximum loan term is ten years at a zero interest rate. Grantees must provide supplemental funds totaling 20 percent of the assistance received from this program.

RURAL UTILITIES SERVICE WATER AND WASTE DISPOSAL SYSTEMS GRANTS

Advantages: Equity and leveraging possibilities are high, since State revolving funds, as well as HUD and EDA grants or loans, can be combined with these grants. State revolving funds can pre-finance these grants (and/or loans), thus covering up-front design and initial construction costs.

Limitations: Projects cannot service areas in towns of over 10,000 people. Grants (as opposed to loans) are made only if needed to reduce user charges to a reasonable level. For a grant of up to 70 % of eligible costs, service area median household income must

be below the poverty level or below 80% of the State nonmetropolitan median household income (whichever is higher).

AFFINITY MERCHANDISE

Advantages: Since the purchase of special affinity merchandise by individuals is entirely voluntary, costs are fairly distributed to those persons who choose to incur them. Such programs allow anyone to advocate environmental improvement and support it financially. Advertisement also develops public awareness of the natural resource that the product displays. When products and proceeds are directed to a specific local site, the cost/benefit link is close.

Limitations: Caution must be exercised to ensure that the administrative costs of voluntary sales and tours justify the typically small amount of revenue raised, even if such programs are implemented primarily to heighten public awareness. Proliferation of many voluntary programs should be avoided. Governments may also be criticized for competing with the private sector.

CONTRIBUTIONS OF LAND

Advantages: Voluntary contributions of land and easements are a potentially large revenue source, or form of governmental cost-savings, and a valuable form of non-regulatory environmental protection. Potential cost-savings from pollution prevention in the first place, as opposed to cleaning up sites after the fact, could be notable, even if there is an initial governmental monetary outlay such as under the federal agricultural reserve program. The environmental incentives in term of enhancing public awareness of environmental needs are clear-cut, and the opportunity exists to attract additional public or private resources to manage lands set aside for protection is strong.

Limitations: As with all in-kind voluntary programs, revenue is unpredictable or non-existent. Administrative costs for future oversight may be high, and outright payments may prove to be too costly in light of the environmental protection to be achieved. Private easement programs may provide incentives to get rid of neglected land, which then must be managed or sold, by governments or non-profit organizations. Thus, these programs must be evaluated on a case-by-case basis.

INDIVIDUAL AND CORPORATE DONATIONS

Advantages: There is little public opposition to voluntary donations, and the advantage of enhancing public interest through a well-publicized campaign and equitable financing means can be extremely important. Although government revenue collection may be limited, money can provide valuable supplemental funding for specific cleanup programs. The ability to leverage additional financial resources, e.g., through corporate matching contributions and in-kind services, is high.

Limitations: Donations will fluctuate with the economy, and also to some extent depending on current tax code restrictions on philanthropic activity. Thus, the revenue stream is unpredictable and unreliable for financing some necessary program costs. Administrative costs may be high, and it may be difficult to track the use of funds which may be demanded by donors.

NONPROFIT ORGANIZATIONS

Advantages: One of the chief advantages of nonprofits is their ability to leverage more monetary donations, volunteer manpower, resources and in-kind services, from the private sector compared to public agencies. In part, this is because of the tax-exempt status of many contributions to nonprofits, but also because they provide a safe and seemingly unbiased focal point that draws attention to the resources being protected and environmental issues being addressed. NGOs may also be able to perform tasks more quickly and efficiently than government, because they have fewer bureaucratic procedures, and can effectively cross jurisdictions for greater ecosystem protection.

Limitations: Revenue generation may be quite unpredictable. Since nonprofits are controlled by their individual membership and boards, they may evolve over time and cannot always be held accountable by government, potentially undercutting the cost/benefit relationship. Some nonprofits are criticized for using too large a portion of donations for internal, administrative purposes.

CERTIFICATES OF PARTICIPATION

Advantages: Certificates of participation do not require voter approval, and do not count against debt capacity limits. In some States, special districts cannot issue bonds but may issue certificates backed by equipment.

Limitations: These certificates can only be issued to finance physical capital that is suitable as collateral, and only in jurisdictions in which local authorities are allowed to negotiate long-term leases.

DOUBLE-BARREL BONDS

Advantages: Double-barrel bonds are a good way for States or localities with a low credit rating to obtain lower interest rates on bond issues.

Limitations: Some State or local governments may have statutory limitations on the issuance of double-barrel bonds, or they may be subject to the same statutory limitations as GO bonds.

GENERAL OBLIGATION BONDS

Advantages: GO bonds backed by full taxing power are regarded as safer than bonds backed by a single revenue source, and generally command lower interest rates and lower reserve fund requirements. GO bonds also have structural flexibility since the issuing government can repay the bond with a variety of revenue sources.

Limitations: Voter approval is frequently required for GO bonds. Many States and cities also place statutory limits on total GO debt, or on GO debt as a percent of property valuation.

PRIVATE ACTIVITY BONDS

Advantages: Qualified private activity bonds provide funding at tax-exempt rates of interest which should be lower than most alternative financing mechanisms. Although interest on such bonds is exempt from the regular income tax, interest on the bonds (other than for bonds issued for 501(c)(3) charitable organizations) is an item of "tax preference" for purposes of the alternative minimum tax.

Limitations: Bonds meeting the definition of private activity bonds may only be issued on a tax-exempt basis if, among other requirements, room is available under the

particular State's volume cap. Federal law imposes a limit on qualified private activity bond issuance for each State of \$50 per capita or \$150 million, whichever is greater. Private activity bonds issued for airports, docks, wharves, municipally-owned solid waste disposal facilities, and facilities used by 501(c)(3) charitable organizations do not require a volume cap allocation.

REVENUE BONDS

Advantages: Revenue bonds have grown in popularity primarily because they are free from the requirements of general obligation bonds, which must be approved by voters, are subject to debt ceiling limitations, and may carry other restrictions covering principal and interest repayments. In contrast, revenue bonds are issued by special authorities and districts, although these are created by local legislative bodies, and do not count against debt ceilings, although the national rating agencies take this into account in financial capability analyses. Revenue bonds can be issued in a timely manner, and debt can be specifically structured to meet project needs. Level annual debt payments ensure that future as well as present users of the new facilities will pay, thus enhancing equity.

Limitations: For some jurisdictions this process is more complicated. In New York, special revenue authorities must be created by the State legislature, and the State comptroller approves revenue bonds over a specific amount. Public authorities remove direct control over spending from local legislative bodies, including approval of user fees. Thus, political control is exercised only indirectly through the appointment of board and authority members. Some localities have strongly resisted the creation of revenue authorities and special districts. In California, such bonds probably require a popular vote.

SPECIAL ASSESSMENT BOND

Advantages: The great attraction of special assessment financing is that it is very equitable. Only those individuals, private firms, and other groups who directly benefit from the specific public improvements through improved services, quality of life, and/or increased property values are responsible for paying for them.

Limitations: Special assessment bonds are normally used only for the construction of a project and not for maintenance, which can prove to be quite expensive in its own right over the long-term. These bonds have speculative elements which must be allayed through backup measures such as limited tax increase authority, utility revenue pledges, and cash flows. Because only those who benefit from the projects must pay, these bonds may require high assessments which small and economically disadvantaged communities may not be able to afford. In California, such bonds probably require a popular vote.

REVOLVING FUND REVENUE BONDS

Advantages: Although SRF revenue bonds are issued at market rates, borrowers receive loans at below market interest rates for qualifying projects. Loan subsidies are derived from other loan repayments and/or investment income on SRF assets. Because of their high asset to liability ratio, SRF revenue bonds are high quality credits and provide market access to borrowers regardless of their individual credit ratings.

Limitations: Borrowers participating in federally funded SRF programs must comply with program requirements. SRF bonds usually mature within 20 years, while traditional

revenue bonds issued for wastewater projects extend out to thirty years and have greater structuring flexibility. In California, such bonds probably require a popular vote.

TAX INCREMENT BONDS

Advantages: TIF has the advantage of being able to define specifically the geographical boundaries and benefits of an environmental improvement. It ensures that those individuals or businesses actually benefiting from the improvement will help pay for it, thus increasing equity. TIF bonds for revitalization projects may be backed by revenue pledges in addition to anticipated increases in property value, called "value capture", which makes them highly leveraged.

Limitations: TIF requires the ability to pass local ordinances and create special financing districts, which often has proven difficult. Tax increment bonds require effective administrative systems for property value tax accounting that may be costly and complicated to manage over time. Property tax assessments are somewhat subjective since they are based on predictions, and assessments must be fully documented, subject to strict record-keeping, and periodically reassessed. In California, such bonds probably require a popular vote.

NORTH AMERICAN DEVELOPMENT BANK

Advantages: The NADBank's strong private sector and loan orientations represent clear leveraging strengths, and enhances equity of access to loans for hard-to-finance projects.

Limitations: Only projects certified by the BECC can be financed by the NADBank. NADBank does not provide grants or equity funding. Many border communities may not be able to afford to repay loans in any form. Projects financed by the NADBank must address environmental issues within 100 kilometers of either side of the United States-Mexico border. NADBank capitalization may fluctuate in the future.

RURAL HOUSING SERVICE – COMMUNITY FACILITIES LOANS

Advantages: These loans are at zero interest and targeted to areas that are often economically disadvantaged. Equity and leveraging potentials are high, since State revolving funds, as well as HUD and EDA grants or loans, could be combined with these loans.

Limitations: Even with a zero interest rate, these loans must be repaid. Assistance is limited to community facilities in rural areas. The loans can be used to fund all development costs related to the community facilities, not just environmental costs. The competition for funding from the many different types of non-environmental projects is great.

STATE REVOLVING FUNDS – WASTEWATER

Advantages: The CWSRFs are able to provide localities with extremely low-interest loans at favorable terms. They can be considerably more flexible than commercial banks -- as States can adjust loan terms to suit localities' ability-to-pay.

Limitations: The competition among applicants for access to revolving loan funds can be intense and difficult. Federal requirements such as Davis-Bacon that apply in using CWSRF monies can increase project costs. Some small communities may not be able to afford any kind of loan.

BUILD/OPERATE/TRANSFER OR BUILD/TRANSFER/OPERATE)

Advantages: BOT and BTO arrangements allow the public sector to capitalize on the construction efficiencies of the private sectors such as faster time frames and lower construction costs. Depending on the individual arrangement, BOT and BTO may also allow the public partner to reap the benefits of private sector operating efficiencies. The arrangements may allow the private partner to enjoy the tax benefits of ownership and, in some cases, provide access to lower cost public financing.

Limitations: Like turnkey arrangements, BOT arrangements must be individually negotiated and traditional low-bid governmental procurement policies often do not work very well.

BORDER ENVIRONMENTAL COOPERATION COMMISSION

Advantages: Both the BECC and the NADBank have a strong private sector orientation. Private financial institutions and firms play a key role in financing, building, operating, and maintaining the infrastructure. Because of the strong private sector orientation, employment along the border and equipment suppliers have benefited from increased economic development.

Limitations: Projects that require grants or equity funding are not considered for certification by the BECC. There is considerable concern that border communities may not be able to repay loans of any kind. All projects certified by the BECC and funded by NADBank must address environmental issues within 100 kilometers of the US-Mexico border.

AGRICULTURAL CONSERVATION PROGRAM

Advantages: This type of program provides an incentive for farmers and ranchers to improve their behavior by adopting approved conservation management practices available for pollution abatement and control. The program is leveraged in the way that it requires recipients to share in the cost of approved conservation practices.

Limitations: Some smaller and/or needy farmers and ranchers may not be able to afford the cost-share aspect of the program.

ECOTOURISM

Advantages: If carefully targeted and properly implemented, ecotourism can protect valuable ecosystems while producing a source of revenue for the local community. In Rwanda, for example, ecotourism has helped save mountain gorillas from extinction. Rwanda's Volcano Park has become an international attraction and represents the third-world country's largest source of foreign exchange.

Limitations: Ecotourism may be infeasible, or even harmful, in natural areas that are too fragile to support visitation. For example, along popular Himalayan tourist routes, litter has been strewn on trails and the alpine forest devastated by travelers looking for fuel to heat food and bath water. On the other hand, many natural areas may not attract a sufficient number of paying visitors to warrant ecotourism. Some countries may decide not to use the revenues generated by ecotourism to protect and support the natural areas visited.

MITIGATION BANKING

Advantages: Requiring compensatory mitigation for public and private developments that cause unavoidable adverse impacts is consistent with the goal of protecting the nation's remaining wetlands. Mitigation banking offers a potentially more efficient and more beneficial approach by compensating in advance for unavoidable adverse impacts on wetlands caused by development projects rather than the more conventional case-by-case compensatory off-site mitigation. Mitigation banking can allow essential development projects to proceed without costly delays and, if properly designed, without compromising regulatory protection of wetlands.

Limitations: Mitigation banking may not offer significant revenue potential even though it requires compensation for adverse impacts on wetlands. Revenues are dependent upon the number and type of development projects that occur in areas covered by the mitigation bank.

SPECIAL DISTRICTS

Advantages: Costs are borne only by taxpayers who will benefit from improvements. Regional special districts can provide more specialized services than smaller governments (e.g., a regional solid waste authority may be more able to finance a solid waste facility than any one county.) Special districts can issue bonds, which reduces debt load on the general purpose government.

Limitations: Special districts are not directly accountable to the electorate -- most special district officials are appointed, not elected. May require special legislation in some areas.

TAX INCREMENT FINANCING

Advantages: Tax Increment Financing makes development self-financed. TIF is very flexible. Local control is retained and no debt limitation usually applies. Development risks are shifted from taxpayers to the bondholders. The revenue potential and generation is very clear and very specific.

Limitations: TIF bonds pose a greater risk to investors and, thus, bear higher interest rates than general obligation bonds. TIFs are complex. Financial, development, engineering, and other technical expertise are necessary. In California, TIF/Redevelopment bonds may only be used in blighted, urban areas.

LAND RECLAMATION BANKS

Advantages: Land reclamation banks combine planning, financing, management, cleanup, and redevelopment functions in a single organization allowing local efforts to be focused. Land reclamation banks may elect to assume environmental and financial liability risks that the private sector is unwilling to bear.

Limitations: Legislation may be necessary to establish a land reclamation bank. Considerable funding/capitalization may be necessary for a bank's startup and operational costs. There may be institutional pressure against consolidating many functions and authorities in a single agency or entity. If not run efficiently and successfully, they may constitute a resource drain on the public treasury.

TAX ABATEMENTS

Advantages: Tax abatements can make otherwise uneconomical projects attractive to property owners, developers, and financial supporters. These abatements can often

provide a substantial incentive for all parties to participate in particular projects. If the new development is properly structured and successful, the community tax base will grow at a rate, and to a size, that more than offsets the loss of taxes due to the abatement.

Limitations: Tax abatements detract from the resource base of States and communities. If given when investment would have occurred anyway, they represent the waste of an incentive and an unnecessary loss of resources. The granting of tax abatements only to select projects may raise concerns about equity.

Section III:
Financing Options: Advantages and Disadvantages

III. Financing Options: *A. Reasonably Likely Revenue Sources*

1. Revenues from Parking/Entrance Fees

Parking/Entrance Fees represent revenue from access to local, state, and federal parks around the Sea.

Year 1 Inception of Fees
Year 15 Year in which restoration project is substantially implemented.

Low – assumes fees increase by a factor of 5 by year 15 and 3% in subsequent years.

Medium – assumes fees increase by a factor of 10 by year 15 and 3% in subsequent years.

High – assumes fees increase by a factor of 15 by year 15 and 3% in subsequent years.

The combined total of visitors to the Imperial Wildlife Area, Salton Sea State Recreation Area, and Salton Sea National Wildlife Refuge was at least 275,000 during 1997. If we assume 3 visitors per vehicle then that is 91,667 vehicles per year. A parking fee of \$5 per vehicle would generate \$0.46 million per year. If total visits increased to twice the annual visits to Lake Perris or 4 million visitors per then parking fees would increase to \$6.6 million per year which is the high figure that is reached in year 15.

Table A and the graphs show the estimated future cash flows generated (in millions of dollars). Table B shows the net present value of these cash flows (in millions of dollars). Net present value is how much someone (i.e. a bond underwriter) would be willing to pay today for the cash flows generated in the future.

Not all of the funds could be utilized for Sea clean-up. Currently about \$.40 on each dollar collected at State Parks goes to the state general fund and the balance to the State Park Revenues Fund. Special legislation would be necessary to capture all increased revenues for cleaning the Salton Sea.

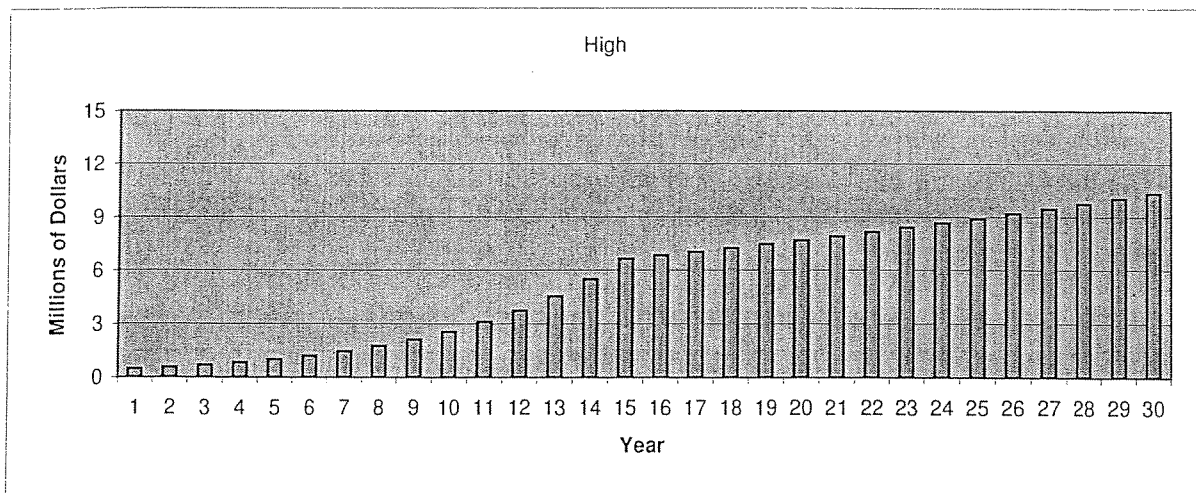
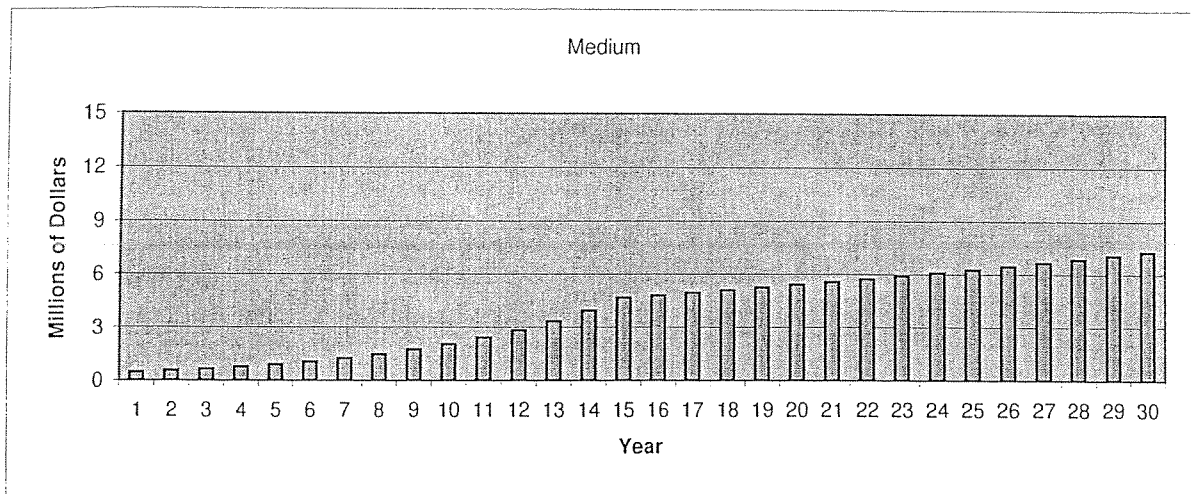
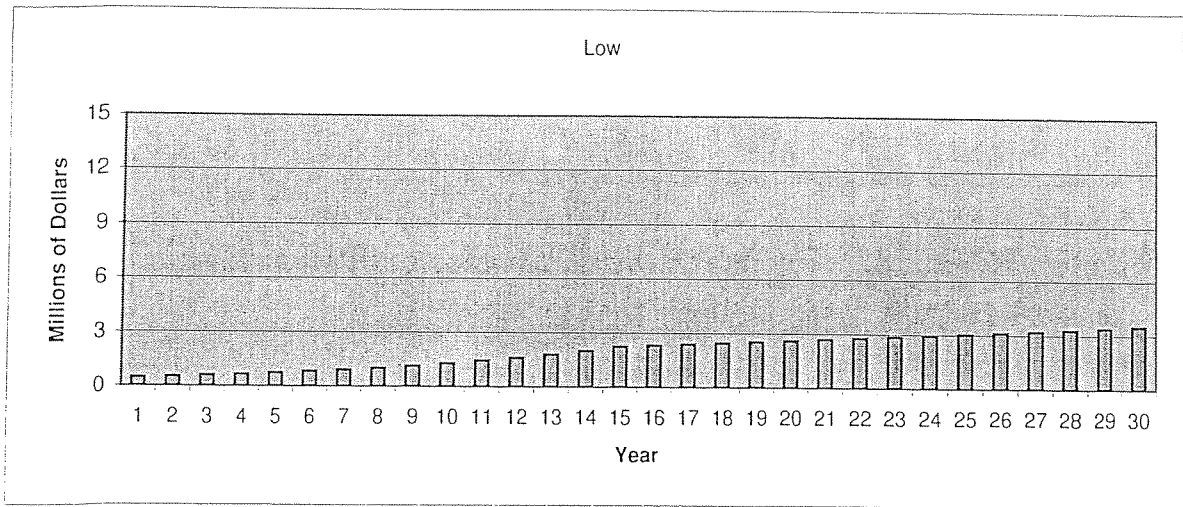
Table A (in millions of dollars)

Year	Low	Medium	High
5	0.7	0.9	1.0
10	1.3	2.0	2.6
15	2.2	4.7	6.6
20	2.6	5.4	7.7
25	3.0	6.3	8.9
30	3.5	7.3	10.3

Table B (in millions of dollars)

	Low	Medium	High
Net Present Value	23	42	57

Annual Cash Flows from Parking Fees



A. Reasonably Likely Revenue Sources

2. Revenues from Salton Sea License Plate Sales

The state of California sells environmental license plates for designated geographical locations within the state (for example Yosemite Valley and Lake Tahoe). These projected revenues are based on estimates of the expected appeal of such license plates and the dedicated revenue generated from their sale.

Low – based on 25,000 license plates and 3% per year increase.

Medium – based on 37,500 license plates and 4% per year increase.

High – based on 50,000 license plates and 5% per year increase.

The Salton Sea Restoration would receive approximately \$18 per license plate; this value is consistent with the other environmental license plates.

Table A and the graphs show the estimated future cash flows generated (in millions of dollars). Table B shows the net present value of these cash flows (in millions of dollars). Net present value is how much someone (i.e. a bond underwriter) would be willing to pay today for the cash flows generated in the future.

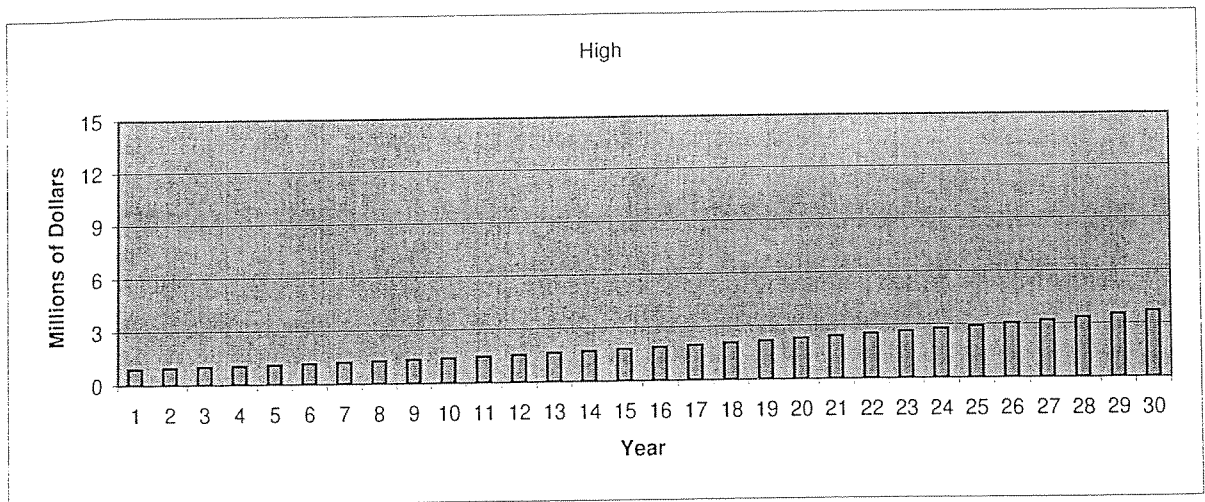
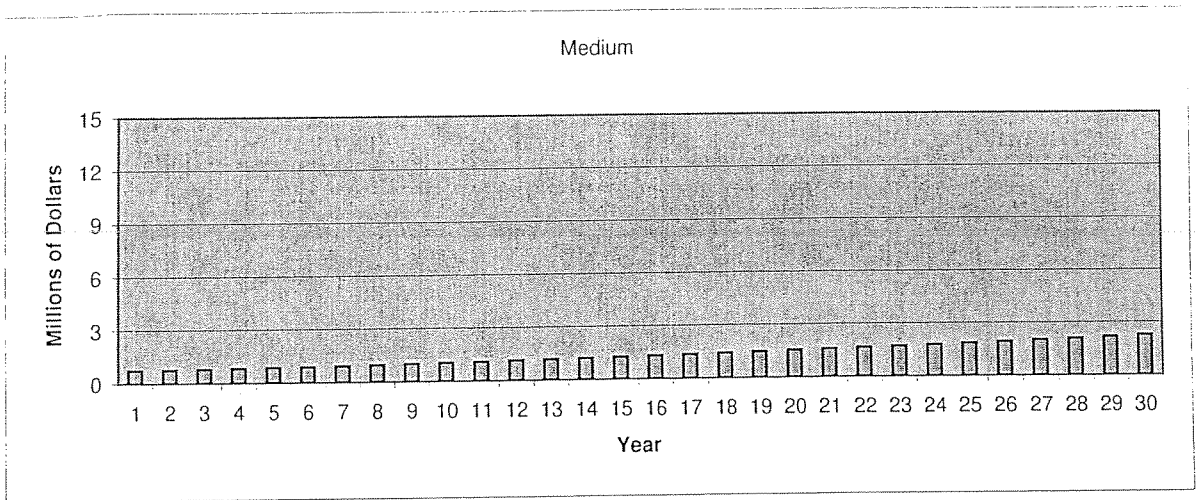
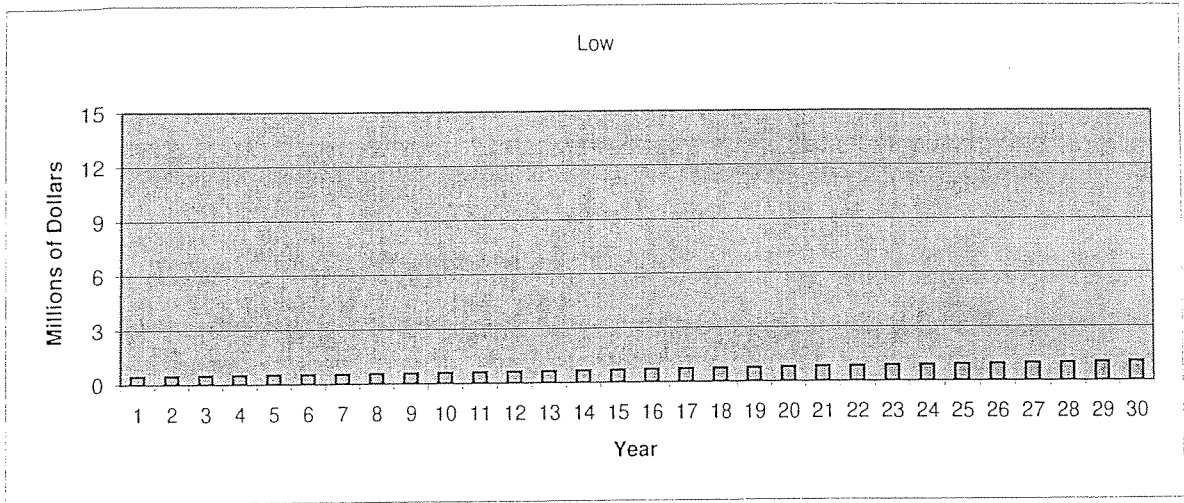
Table A (in millions of dollars)

Year	Low	Medium	High
5	0.5	0.8	1.1
10	0.6	1.0	1.4
15	0.7	1.3	1.8
20	0.8	1.5	2.3
25	0.9	1.9	2.9
30	1.1	2.3	3.7

Table B (in millions of dollars)

	Low	Medium	High
Net Present Value	9	17	24

Annual Cash Flows from License Plates



A. Reasonably Likely Revenue Sources

3. Revenues from Boat Permits and Launch Fees

This revenue projection is based on projected revenues from launch fees. It is particularly noteworthy that these revenues are projected to increase by 3% per year after project completion in year 15. This seems a very conservative assumption in light of the popularity of other inland California water sports areas.

Year 1 Inception of Fees
Year 15 Year in which restoration project is substantially implemented.

Low – assumes fees increase by a factor of 5 by year 15 and 3% in subsequent years.

Medium – assumes fees increase by a factor of 10 by year 15 and 3% in subsequent years.

High – assumes fees increase by a factor of 15 by year 15 and 3% in subsequent years.

Year 1 Revenues assume 15,000 registered boats and 150,000 boat launches. Annual boat fees are assumed to equal \$30 per boat and launch fees are assumed to equal \$10 per launch. The fees are expected to grow as noted above under high, low, and medium scenario. The medium estimates in year 15 are equivalent to the Sea reaching twice as many visitors as Lake Perris currently has.

Special legislation would probably be required to dedicate an annual boat fee and the launch fees to Sea clean-up. It is probably more likely that only a portion of these fees would go to Sea clean-up, especially because increased recreational use of the sea would necessitate additional park staffing and increased maintenance expense.

Table A and the graphs show the estimated future cash flows generated (in millions of dollars). Table B shows the net present value of these cash flows (in millions of dollars). Net present value is how much someone (i.e. a bond underwriter) would be willing to pay today for the cash flows generated in the future.

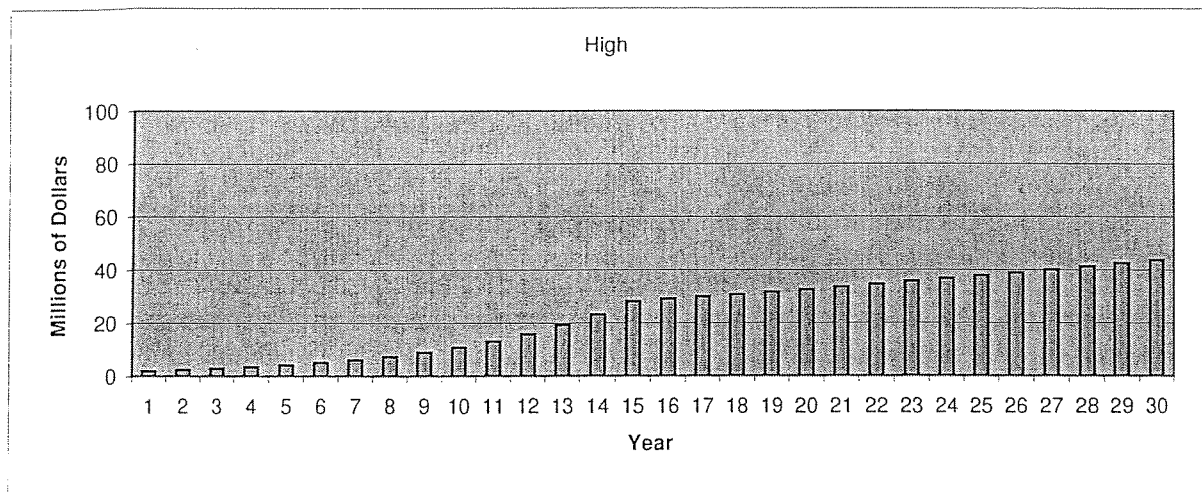
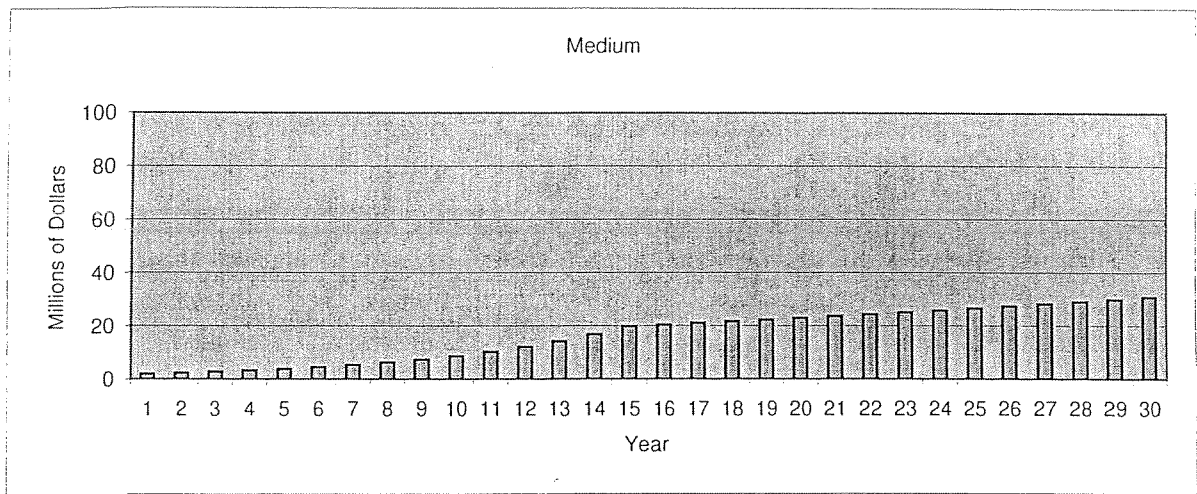
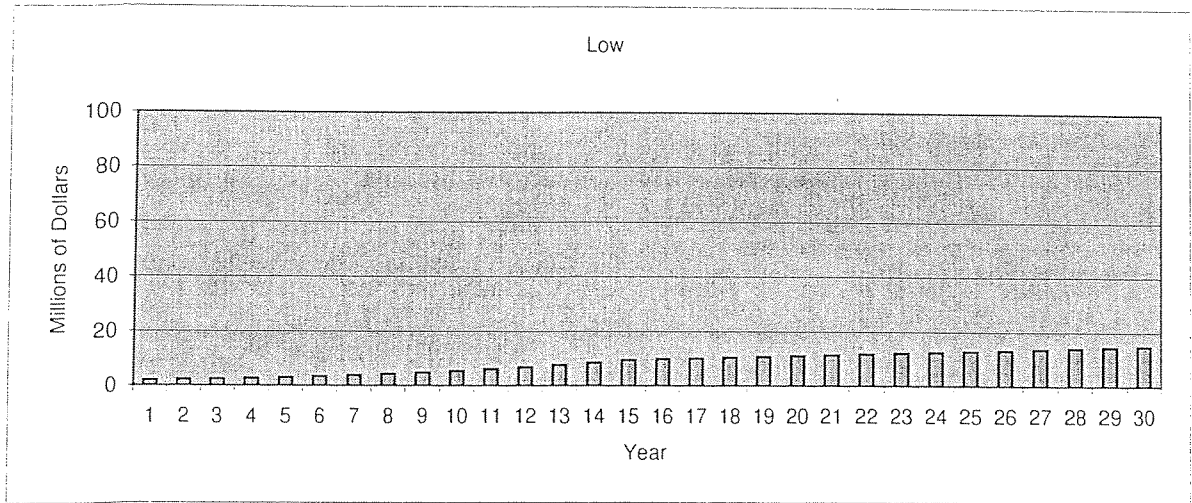
Table A (in millions of dollars)

Year	Low	Medium	High
5	3.1	3.8	4.2
10	5.4	8.6	10.8
15	9.5	19.8	28.1
20	11.0	22.9	32.6
25	12.8	26.6	37.8
30	14.8	30.8	43.8

Table B (in millions of dollars)

	Low	Medium	High
Net Present Value	97	178	243

Annual Cash Flows from Boat Permits and Fees



A. Reasonably Likely Revenue Sources

4. Revenues from Salton Sea Fishing Stamps

Revenues from fishing license fees for Salton Sea fishing stamp.

Year 1 Inception of Fees
Year 15 Year in which restoration project is substantially implemented.

Low – assumes fees increase by a factor of 5 by year 15 and 3% in subsequent years.

Medium - assumes fees increase by a factor of 10 by year 15 and 3% in subsequent years.

High - assumes fees increase by a factor of 15 by year 15 and 3% in subsequent years.

Numbers for 1997 indicate about 250,000 visitor days for fishing purposes for the Imperial Wildlife Area and the Salton Sea State Recreation Area. If it is assumed that the average visitor makes 2.5 visits, then this is a total of 100,000 different anglers. If an annual Salton Sea Stamp costs \$3 and 100,000 stamps are purchased each year then \$300,000 in revenues could be raised in the first year. As the sea is restored and concerns about the safety of consuming the fish from the sea are reduced, then we would expect a significant increase in the number of annual anglers.

Allocating revenues from such a fee would probably require special legislation. Again, it is unlikely that all increased revenue would be dedicated to Sea clean-up.

Table A and the graphs show the estimated future cash flows generated (in millions of dollars). Table B shows the net present value of these cash flows (in millions of dollars). Net present value is how much someone (i.e. a bond underwriter) would be willing to pay today for the cash flows generated in the future.

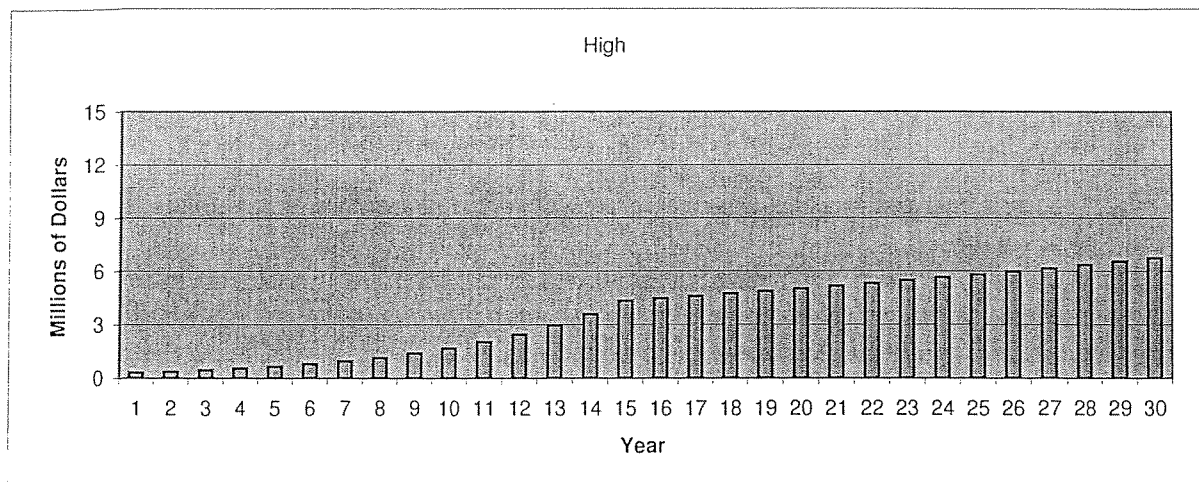
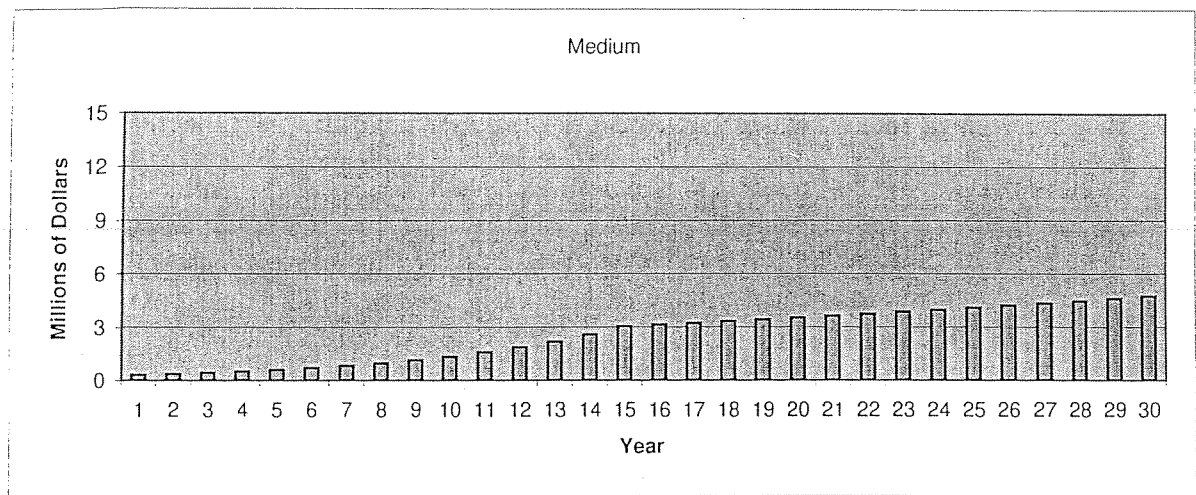
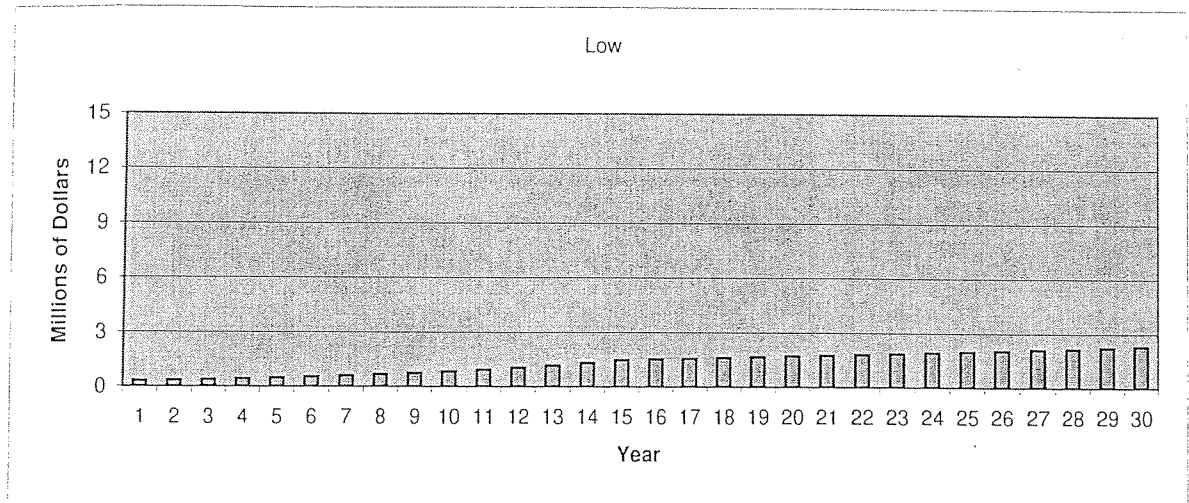
Table A (in millions of dollars)

Year	Low	Medium	High
5	0.5	0.6	0.6
10	0.8	1.3	1.7
15	1.5	3.0	4.3
20	1.7	3.5	5.0
25	2.0	4.1	5.8
30	2.3	4.7	6.7

Table B (in millions of dollars)

	Low	Medium	High
Net Present Value	15	27	37

Annual Cash Flows from Fishing Stamps



B. Possible Revenue Sources

1. Revenues from 0.5% Sales Tax Increase in Salton Sea Focus Area

Revenues from 0.5% sales tax in Salton Sea Focus Area that is defined as census tracts 101, 102, 123, 124, 456.01, 456.02, 457.01, 457.02.

Year 1 Inception of Fees
Year 15 Year in which restoration project is substantially implemented.

Low – assumes fees increase by a factor of 5 by year 15 and 3% in subsequent years.
Medium - assumes fees increase by a factor of 10 by year 15 and 3% in subsequent years.
High - assumes fees increase by a factor of 15 by year 15 and 3% in subsequent years.

The initial estimates of \$400,000 per year in tax revenue are based on the 1993 reported sales tax revenues in the focus area of \$75.5 million. A 0.5% increase in the sales tax only instituted in the focus area would initially generate this revenue and it is expected to grow as described above, according to Professor Bazdarich's projections.

To establish a special sales tax increase in the focus area would probably require a popular vote and special legislation. If, on the other hand, a general sales tax increase was imposed county wide, in each county then the proceeds of such a sales tax would most likely go to the county's general fund. It would be the prerogative of the Board of Supervisors of each county as to how these funds would be spent.

Table A and the graphs show the estimated future cash flows generated (in millions of dollars). Table B shows the net present value of these cash flows (in millions of dollars). Net present value is how much someone (i.e. a bond underwriter) would be willing to pay today for the cash flows generated in the future.

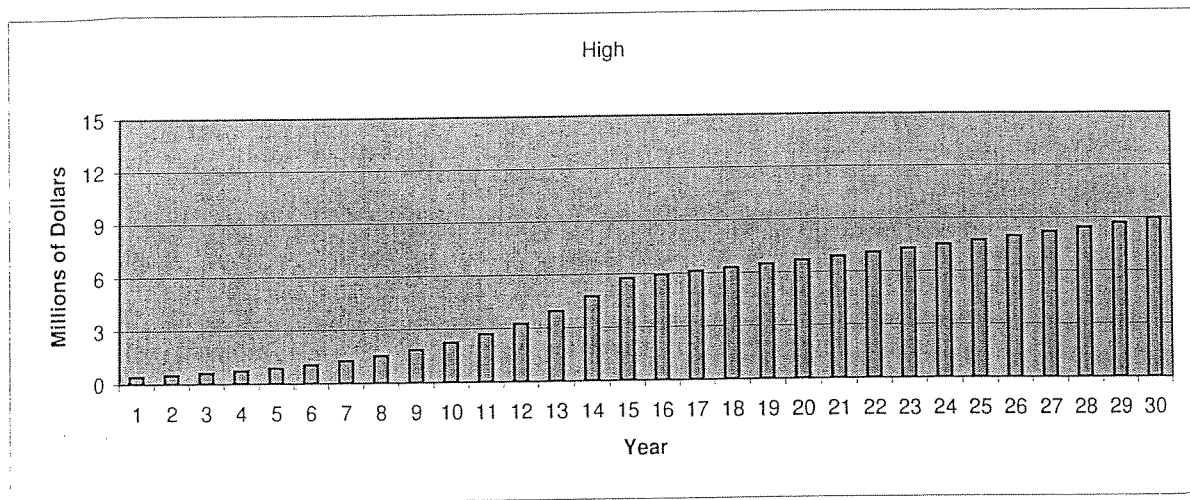
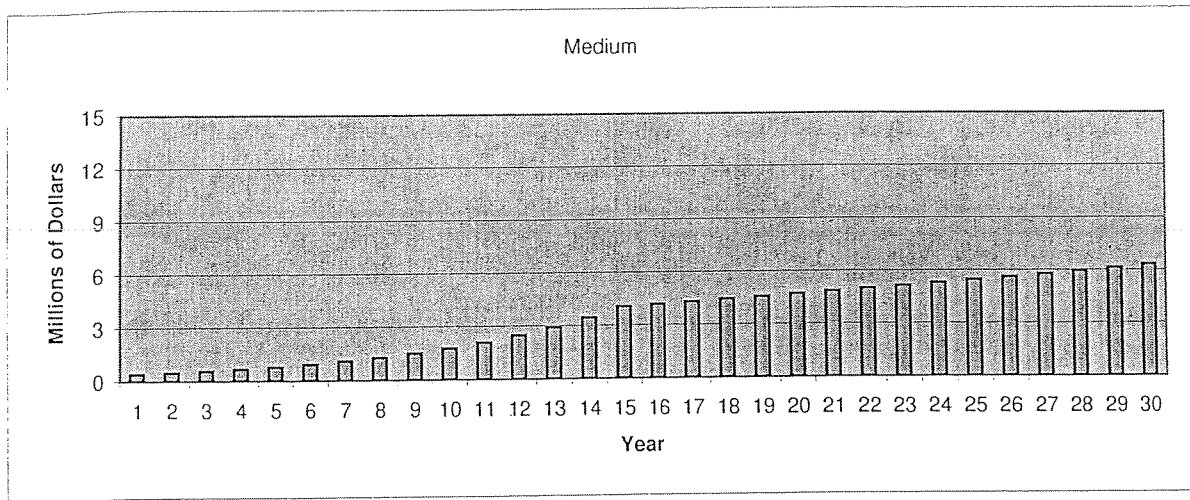
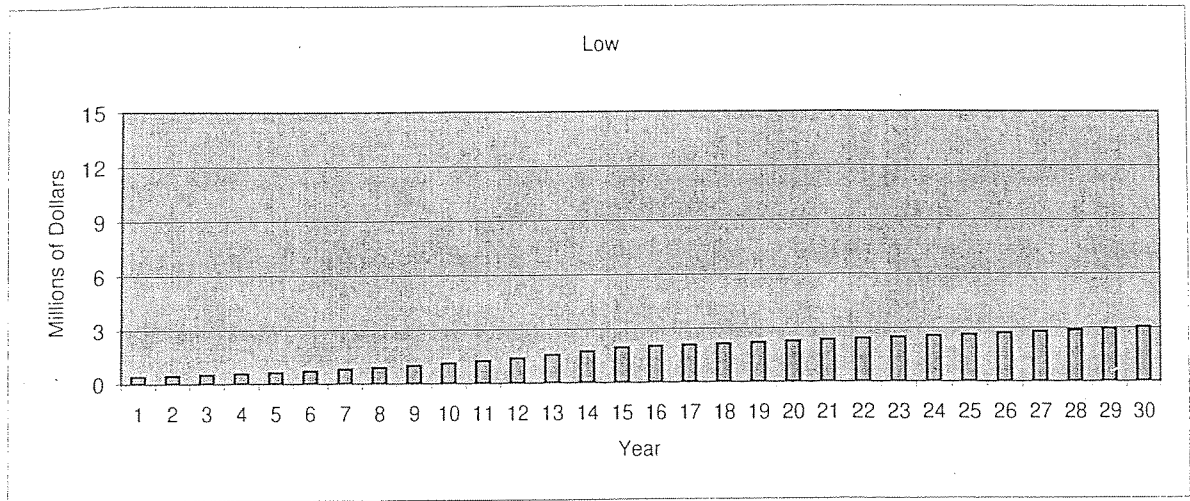
Table A (in millions of dollars)

Year	Low	Medium	High
5	0.6	0.8	0.9
10	1.1	1.8	2.2
15	2.0	4.1	5.8
20	2.3	4.7	6.7
25	2.6	5.5	7.8
30	3.0	6.3	9.0

Table B (in millions of dollars)

	Low	Medium	High
Net Present Value	20	37	50

Annual Cash Flows from 0.5% Sales Tax Revenue Increase in SSFA



B. Possible Revenue Sources

2. Revenues from Transient Occupancy Tax within Salton Sea Focus Area

Revenues from a 10% transient occupancy tax with $\frac{1}{2}$ of the tax revenue going to the restoration of the Salton Sea.

Year 1 Inception of Fees
Year 15 Year in which restoration project is substantially implemented.

Low — assumes revenues increase to \$1.5 million by year 15 and grows by 3% in subsequent years.

Medium — assumes revenues increase to \$2.25 million by year 15 and grows by 3% in subsequent years.

High — assumes revenues increase to \$3 million by year 15 and grows by 3% in subsequent years.

The initial values of \$0.5 million come from 10% tax on \$5 million in total transient occupancy revenue that is approximately the current level of unincorporated areas of Riverside and Imperial County. The eventual high value is consistent with similar revenues currently raised in Palm Desert. Again, the Board of Supervisors in each county would make any decision about imposition of TOT's and allocation of the proceeds.

Table A and the graphs show the estimated future cash flows generated (in millions of dollars). Table B shows the net present value of these cash flows (in millions of dollars). Net present value is how much someone (i.e. a bond underwriter) would be willing to pay today for the cash flows generated in the future.

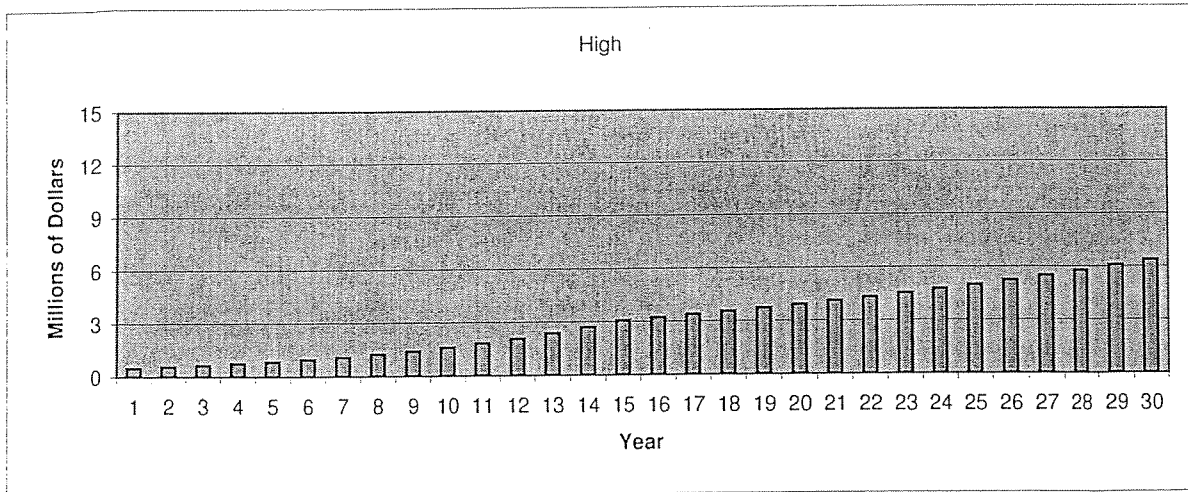
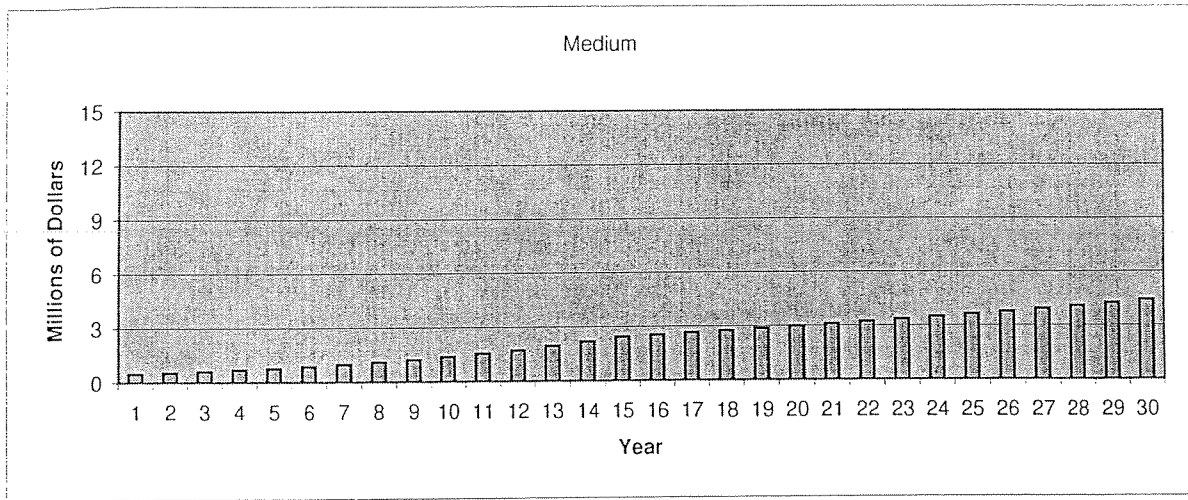
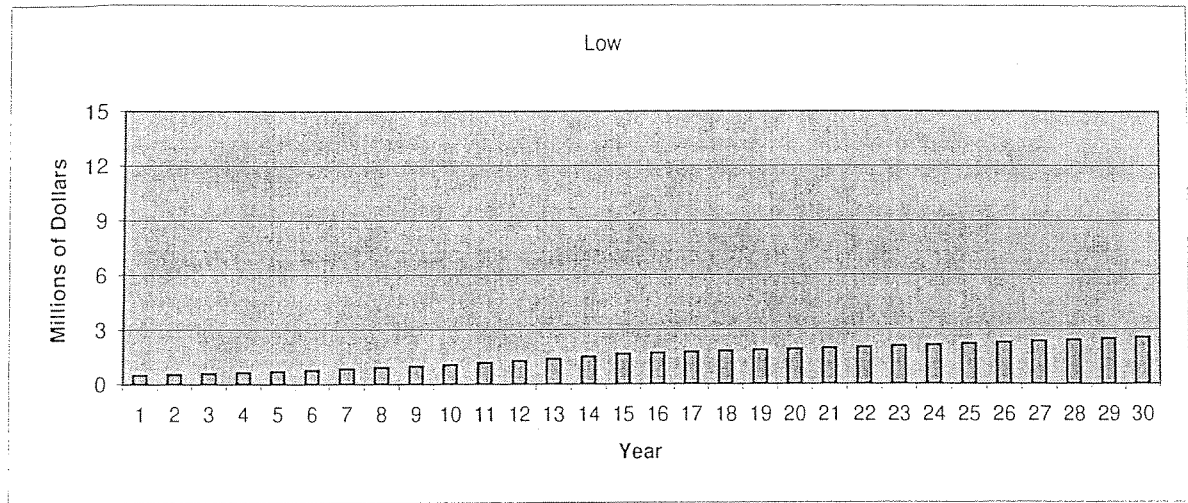
Table A (in millions of dollars)

Year	Low	Medium	High
5	0.7	0.8	0.8
10	1.1	1.4	1.6
15	1.6	2.5	3.1
20	1.9	3.0	3.9
25	2.2	3.6	5.0
30	2.6	4.4	6.4

Table B (in millions of dollars)

	Low	Medium	High
Net Present Value	18	26	33

Annual Cash Flows from Transient Occupancy Tax Revenues



C. Problematic Revenue Sources

1. Revenues from Geothermal Energy Production

There is the potential revenue from royalties from the operation of a geothermal plant or geothermal plants around the Salton Sea. The legal and technical factors involved preclude a reasonable estimate of these revenues at this stage.

C. Problematic Revenue Sources

2. Revenues from Casino

This revenue is based on the expectation of a casino being built at the north end of the Salton Sea. Proposition 5 provides a 6% set aside from casino gross win.

Year 1	Inception of Revenue	\$40,000,000 gross win
Year 2	Revenue doubles	\$80,000,000 gross win
Year 3	Revenue increase by additional 25%	\$100,000,000 gross win

Low – assumes revenues are 1% of gross win and increase by 3% per year in subsequent years.

Medium – assumes revenues are 3% of gross win and increase by 4% per year in subsequent years.

High – assumes revenues are 3.5% of gross win and increase by 5% per year in subsequent years.

These revenue projections were made by a local casino operator. If these projections are correct, then the revenue streams will be as projected above.

Table A and the graphs show the estimated future cash flows generated (in millions of dollars). Table B shows the net present value of these cash flows (in millions of dollars). Net present value is how much someone (i.e. a bond underwriter) would be willing to pay today for the cash flows generated in the future.

Table A (in millions of dollars)

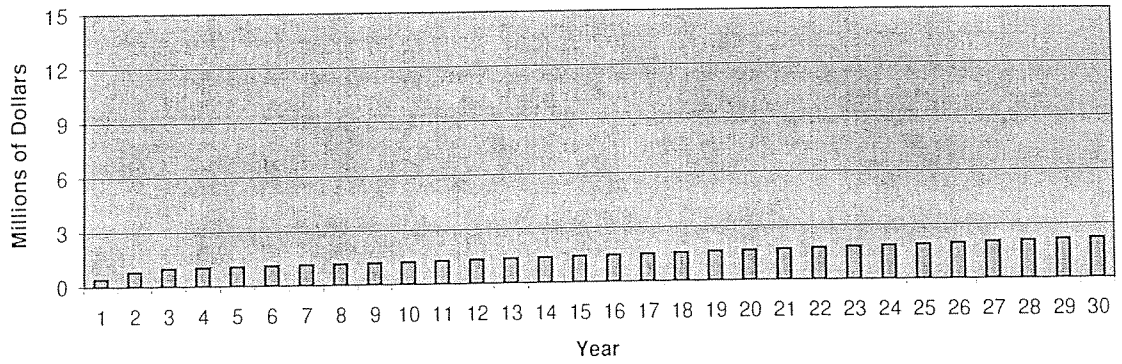
Year	Low	Medium	High
5	1.1	3.2	3.9
10	1.2	3.9	4.9
15	1.4	4.8	6.3
20	1.7	5.8	8.0
25	1.9	7.1	10.2
30	2.2	8.7	13.1

Table B (in millions of dollars)

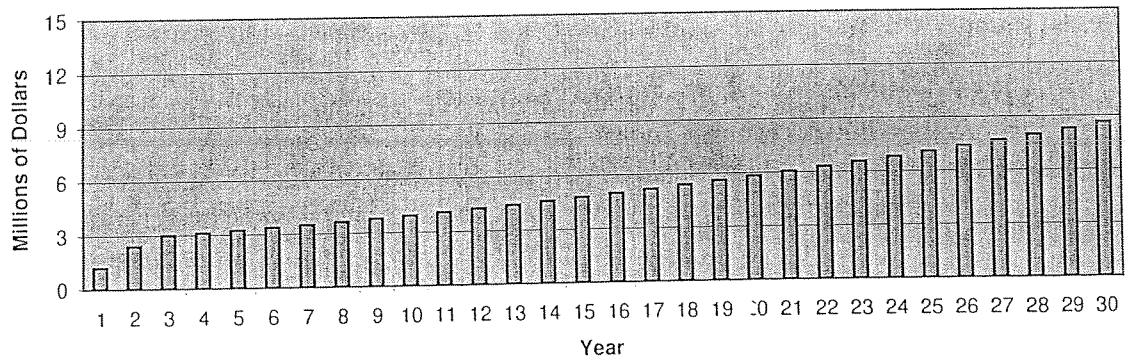
	Low	Medium	High
Net Present Value	37	63	82

Annual Cash Flows from Casino

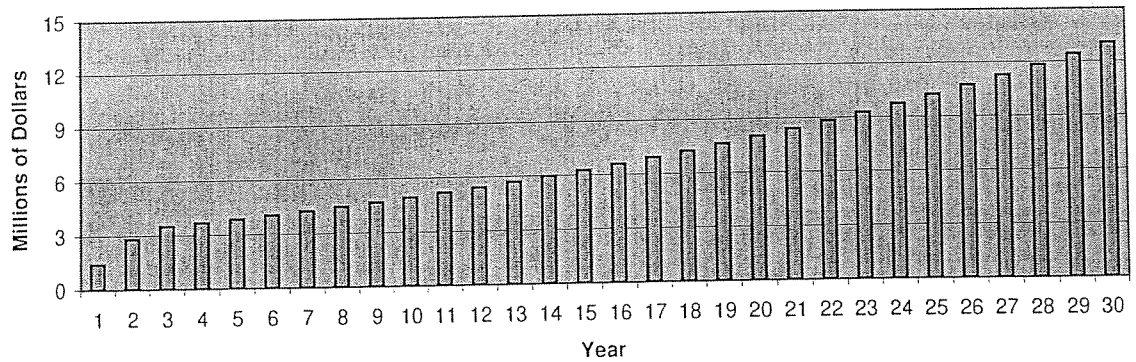
Low



Medium



High



C. Problematic Revenue Sources

3. Revenues from Water Transfers, Conservation, and Recycling

While there may be considerable potential revenues from water transfers, conservation, and recycling, the legal, technical and economic factors involved preclude any reasonable estimate of the magnitude of these revenues being accurately forecast at this stage. A preliminary review of the potential revenues from these sources indicates the potential for fairly substantial sums to be generated, but additional information will be required before a useful estimate of revenues can be made.

C. Problematic Revenue Sources

4. Redevelopment

Redevelopment Agencies (RDAs) have been established throughout California. The original intent of the state legislature in sanctioning the establishment of RDAs was to allow local governments a means to alleviate blight, build low cost housing, provide infrastructure, and stimulate economic development in depressed areas. Local governments could declare an area blighted, establish an RDA, condemn and assemble parcels for various private and public sector projects, and most importantly, cap the property tax revenue going to other governments, thereby allowing the RDA to garner the increased property tax revenue generated within its boundaries (the "increment") to finance its activities.

By the mid-1980s concern was being expressed about the amount of tax money RDAs were diverting from other local governments. Also, concern was mounting that some cities were using very broad definitions of blight to establish RDAs in what were non-urban and non-blighted areas. In response to these concerns, the state legislature passed AB 1290 effective January 1994. AB 1290 basically decreased the relative amount of tax revenues that RDAs could retain, and curbed the practice of establishing RDAs in non-urban areas.

Applicability to the Salton Sea clean-up efforts

In order to establish a Redevelopment Area around the Salton Sea, a number of very challenging obstacles would have to be overcome. First, special legislation would probably be required to allow such an RDA to be established. Establishing an RDA under current law appears to be difficult, at best. Second, the Boards of Supervisors in both Imperial County and Riverside County would have to approve the establishment of such an RDA. Third, opposition from existing governmental entities that receive property tax revenue from the new RDA's area might be substantial.

C. Problematic Revenue Sources

5. Property Tax Revenue

Bazdarich (1998) estimates that the successful restoration of the Sea will result in property value increases of \$2,165 million for the area located within one-half mile of the Salton Sea shoreline. Under the assumption of 3.5% interest rate, a 1.0% taxation rate, he estimates that the present value of increases in property tax revenues that accompany the increased property values to be \$458 million. With similar assumptions about property turnover rates and taxation rates but with the more conservative estimate for the interest rate of 5.5% that we use throughout our analysis, the present value of this payment stream is \$254 million. It is important to note that these estimates provide the present value of the property value increase as a result of cleaning up the Sea. The longer the time to complete restoration, the lower the present value of this revenue stream due to the longer delay in receiving these revenues. These estimates will also be lower (higher) if the property turnover rate is lower (higher).

Under current, law these property tax revenue increases would continue to be apportioned to the various local government entities (counties, cities, special districts and school districts as applicable) in the same manner and proportion as is currently the case. Any attempt to garner part of this increased property tax revenue stream would most likely face substantial opposition from the current recipients.

Section IV:
Potential Government Structures

IV. Potential Government Structure

Typically, government structures in complex situations such as this one involve all three levels of government, federal, state, and local.

In this instance, the federal government will be involved for a number of reasons. First, the Bureau of Reclamation is involved with any substantial matters concerning the Colorado River, water usage from the river, and the Salton Sea itself. Second, because another sovereign government, Mexico, impacts and is impacted by what happens in the Salton Sea Basin, the federal government is going to be involved. Third, it is likely that any substantial reclamation of the Salton Sea is going to require federal financial support. Fourth, the complex environmental issues surrounding the Salton Sea will almost inevitably involve federal agencies. Fifth, the interest of the California congressional delegation will perforce cause federal involvement.

The State government will be involved for a number of reasons as well. First, the Salton Sea is in the State and hence subject to state laws and regulations, notably environmental laws, but also others. Second, there is a state park on the shore of the Salton Sea. Third, most fiscal matters surrounding any Salton Sea environmental mitigation will involve state financing, and perhaps more importantly, state legislative sanction. Fourth, the unique nature of the Salton Sea (it is located in two counties) virtually guarantees that specific state legislation will be necessary to implement any comprehensive improvement program.

Local governments are involved for the very reason that the Salton Sea is located in both Imperial and Riverside Counties and because the IID and CVUD are intimately involved with the water sources for the Sea.

In sum, the Salton Sea is a unique hydrological feature that affects and is affected by all three levels of government. This suggests that some sort of broad joint powers authority with representation from each of the levels of government is appropriate to have cognizance over any major, comprehensive approach to improving the Salton Sea.

There are a number of structural governance models that could be employed (For example, a nine member board, three approved by the feds, three by the state, two from the water districts and one from a local Indian Tribe). In any event, concurrence of all three levels of government is probably necessary, and the number and composition of the board would have to be palatable to all parties concerned.

Because the counties and the water districts are legal entities of the state, the state and federal governments will probably be the dominant players in structuring the joint powers authority. Similarly, because almost any local revenue raising options will require state enabling legislation, the state will, again, be the dominant player.

The Everglades presents a similar situation in that it is a complex water related resource, with many interested parties. In this particular case, a Task Force was created at the

Federal level, which led, in turn, to the formation of a more local working group. This model gives some idea of the number of federal, state, and local entities involved in a project of this magnitude.

Florida Everglades Task Force:

- 7 federal members
- 2 Indian tribes
- 2 representatives of the state
- South Florida Water Management District
- 2 representatives of local governments in south Florida
- Secretary of the Army

Florida Everglades Working Group:

- 14 local federal members
- 2 Indian tribes
- 5 state agencies
- Florida Governor's Office
- South Florida Water Management District
- 2 representatives of local governments in south Florida
- Secretary of the Army

The CALFED Bay-Delta Program, with management and regulatory responsibility in the Bay Delta Estuary, is another example of state-federal cooperation. CALFED is comprised of the following agencies:

Federal:

1. Department of the Interior
2. Bureau of Reclamation
3. Fish and Wildlife Service
4. Environmental Protection Agency (EPA)
5. Department of Commerce
6. National Marine Fisheries Service (NMFS)
7. U.S. Army Corps of Engineers (COE)
8. Department of Agriculture
9. National Resource Conservation Service

State:

1. Resources Agency
2. Department of Water Resources (DWR)
3. Department of Fish and Game (DFG)
4. California Environmental Protection Agency
5. State Water Resources Control Board

Section V:
Consequences of Allowing Further Deterioration

V. Consequences of Allowing Further Deterioration of the Salton Sea

If the Salton Sea continues to deteriorate, then there are 3 broad costs:

1. Decreased Property Values - The Salton Sea Authority (1995) reports that there were 15,405 total housing units with an average value of \$92,600 in the Salton Sea Focus Area. This is a total housing stock value of \$1.4 billion. If the *relative decrease* in the value of this housing stock is 5% per year for 20 years, then value of the housing stock will be \$900 million less than it would have otherwise been. This decrease has a present value of \$585 million at an interest rate of 5.5%. It is important to understand what a *relative decrease* in property values represent. If property values would have increased by 3% in the absence of the deterioration of the Sea and instead decrease by 2% per year, then this is a *relative decrease* of 5%. If the *relative decrease* in the value of this housing stock is 10% per year for 20 years, then value of the housing stock will be \$1.2 billion less than it would have otherwise been. This decrease has a present value of \$866 million at an interest rate of 5.5%. If non-residential property in the focus area has a value of 25% to 50% of the value if the residential property, then we have further decreases of \$146.25 million to \$433 million. As the problems associated with further degradation spill over to areas outside the focus area, these costs will increase. In addition decreased property values will lead to decreases in property tax revenues.

Expected Value of Loss – \$731 million to \$1,299 million.

2. Decreased Economic Activity - The Salton Sea Authority (1995) provides updated values of a 1989 study (CIC Research Inc.) of economic activity that results from recreational visits to the Salton Sea. These estimates indicate 2.6 million visitor days to the Sea and a total Economic Impact of \$385 million. If we assume a similar current economic impact and that further deterioration results in relative decreases in economic activity of 5%, then this will result in a decrease in relative economic activity of \$247 million within 20 years. The present value of this decrease at an interest rate of 5.5% is \$161 million. If further deterioration results in relative decreases in economic activity of 10%, then this will result in a decrease in relative economic activity of \$338 million within 20 years. The present value of this decrease at an interest rate of 5.5% is \$238 million.

Expected Value of Loss – \$161 million to \$238 million.

3. Environmental degradation, loss of habitat and bio-diversity, decreases in the quality of life - The largest cost of further degradation of the Salton Sea is likely to be in terms of environmental damage. Continued degradation is likely to result in increased fish die-offs and subsequent waterfowl die-offs. While the decreased economic activity captures some of these effects, the potential loss of species and decreased bio-diversity is likely to have much larger costs. The resulting unpleasantness that such die-offs cause for human

beings in the area is also difficult to value. Decreases in property values can only capture a portion of these losses. In the longer term as the Sea recedes, the increased cost of the resulting dust, which is likely to contain toxic particles, will lead to even greater decreases in the quality of life for the surrounding communities. Based on current efforts to reduce dust levels in Owens Valley, Quinlan (1998) estimates expenditures of \$90 million to \$132 million per year will be needed to reduce dust levels at the Salton Sea. If this dust abatement program begins in ten years, then at a present value of 5.5% per year the present value of these costs are \$0.9 billion to \$1.4 billion. At this point we are unable to place a dollar value on these costs other than to suggest that they are likely to be at least as large as the economic costs.

Section VI:
Overall Economic Benefits of Salton Sea Restoration

VI. Overall Economic Benefits of Salton Sea Restoration

Bazdarich (1998) estimates an annual average flow of benefits equal to \$160 million from the restoration of the Salton Sea as a result of increased economic activity and increased property values within $\frac{1}{2}$ miles of the Salton Sea. At an interest rate of 5.5% these benefits in perpetuity have a present value of \$2.9 billion. These estimates do not include the benefits that will accrue to areas outside this $\frac{1}{2}$ mile area. Under the assumption that the benefits accruing outside the area are equal to 50% of the benefits in the $\frac{1}{2}$ mile area, then we have an increase in the annual benefits of \$80 million per year with a present value of \$1.45 billion. If the benefits accruing outside the area are equivalent to the benefits in the $\frac{1}{2}$ mile area, then we have an increase in the annual benefits of \$160 million per year with a present value of \$2.9 billion. It should be noted that some of these benefits will of necessity be allocated to the improvement of the Sea.

Total estimates \$4.35 billion to \$5.8 billion.

Federal level, which led, in turn, to the formation of a more local working group. This model gives some idea of the number of federal, state, and local entities involved in a project of this magnitude.

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